



Organización Internacional de Comisiones de Valores
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21 November 2005
Henry Rees
Project Manager
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH
United Kingdom

Re: Exposure Draft of Proposed Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and IAS 19 *Employee Benefits*

Dear Mr. Rees:

The International Organization of Securities Commissions (IOSCO) Standing Committee No. 1 on Multinational Disclosure and Accounting (Standing Committee No. 1 or SC1) thanks you for the opportunity to provide our thoughts regarding the Exposure Draft of Proposed Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and IAS 19 *Employee Benefits*.

IOSCO is committed to promoting the integrity of international markets through promotion of high quality accounting standards, including rigorous application and enforcement.¹ Members of Standing Committee No. 1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect a general consensus among the members of Standing Committee No. 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

We understand the IASB's decision to amend certain aspects of IAS 37 and IAS 19 in conjunction with the second phase of the Business Combinations project and the short-term international convergence project. However, we have some concerns related to the proposed amendments that are included in our responses to the questions in the Exposure Draft. Our comments on the proposed amendments to IAS 37 are reflected below, followed later in this letter by our comments on the proposed amendments to IAS 19.

¹ See IOSCO website, www.iosco.org

Proposed Amendments to IAS 37

Question 1 – Scope of IAS 37 and terminology

The Exposure Draft proposes to clarify that IAS 37, except in specified cases, should be applied in accounting for all non-financial liabilities that are not within the scope of other Standards (see paragraph 2). To emphasize this point, the Exposure Draft does not use ‘provision’ as a defined term to describe liabilities within its scope. Instead, it uses the term ‘non-financial liability’ (see paragraph 10). However, the Exposure Draft explains that an entity may describe some classes of non-financial liabilities as provisions in their financial statements (see paragraph 9).

(a) Do you agree that IAS 37 should be applied in accounting for all non-financial liabilities that are not within the scope of other Standards? If not, for which type of liabilities do you regard its requirements as inappropriate and why?

We believe that the IASB’s proposal to apply the guidance in the Exposure Draft to all non-financial liabilities that are not within the scope of other Standards would prohibit the accounting for non-financial liabilities by using analogies to guidance contained in other Standards. Accordingly, the IASB should explain in the Basis for Conclusions the consequences of broadening the scope of IAS 37 to include all non-financial liabilities, including those that may have previously been accounted for by applying other Standards, as permitted by paragraphs 11 and 12 of IAS 8. For example, the interaction between the proposals in the Exposure Draft and IAS 18 for non-financial liabilities arising from revenue transactions should be further explained to eliminate any confusion regarding possible conflicts between IAS 18 and IAS 37.

(b) Do you agree with not using ‘provision’ as a defined term? If not, why not?

We support the IASB’s proposal to eliminate “provision” as a defined term and agree that the elimination of this term would not prevent entities from describing non-financial liabilities as provisions in their financial statements.

Question 2 – Contingent liabilities

The Exposure Draft proposes to eliminate the term ‘contingent liability’.

The Basis for Conclusions on the proposals in the Exposure Draft explains that liabilities arise only from unconditional (or non-contingent) obligations (see paragraph BC11). Hence, it highlights that something that is a liability (an unconditional obligation) cannot be contingent or conditional, and that an obligation that is contingent or conditional on the occurrence or non-occurrence of a future event does not by itself give rise to a liability (see paragraph BC30).

The Basis for Conclusions also explains that many items previously described as contingent liabilities satisfy the definition of a liability in the Framework. This is because the contingency does not relate to whether an unconditional obligation exists. Rather it relates to one or more uncertain future events that affect the amount that will be required to settle the unconditional obligation (see paragraph BC23).

The Basis for Conclusions highlights that many items previously described as contingent liabilities can be analysed into two obligations: an unconditional obligation and a conditional obligation. The unconditional obligation establishes the liability and the conditional obligation affects the amount that will be required to settle the liability (see paragraph BC24).

The Exposure Draft proposes that when the amount that will be required to settle a liability (unconditional obligation) is contingent (or conditional) on the occurrence or non-occurrence of one or more uncertain future events, the liability is recognised independently of the probability that the uncertain future event(s) will occur (or fail to occur). Uncertainty about the future event(s) is reflected in the measurement of the liability recognised (see paragraph 23).

(a) Do you agree with eliminating the term ‘contingent liability’? If not, why not?

We understand that the elimination of the term “contingent liability” will focus the recognition of a non-financial liability on whether the definition of a liability has been met (paragraph 12). While we do not object to the IASB’s proposal to eliminate this term, we believe that in the absence of a contract or other written agreement, it is not clear whether a potential obligor has an obligation that would meet the definition of a liability. Therefore, we are concerned that the proposed accounting for obligations that arise outside of a contract or other written agreement will be less consistent across entities with similar facts and circumstances.

For example, a manufacturer of consumer goods might determine that the definition of a liability has been met for previously unknown product defects only when a claim has been asserted. In contrast, another manufacturer of the same consumer goods might determine that the definition of a liability has been met for unknown product defects when the goods are sold because at that point the manufacturer believes it has an obligation to “stand ready” to be sued for possible future losses.

For contractual obligations, the contract or other written agreement is one form of evidence that makes it clear that the definition of a liability has been met. When a contract or written agreement does not exist, an element of the contingency is often whether the potential obligor even has an obligation at all. We are not convinced that the so-called “stand-ready” obligation to defend against inappropriate claims represents a liability at all. If it does, then such obligations are surely too numerous to identify or evaluate, as they exist whether a claim has been filed or not. As such, we believe there are both conceptual and practical reasons to reconsider the proposed accounting for non-contractual contingencies. As we discuss further in our response to Question 5, we believe a possible solution that the IASB could consider would be to include a recognition criterion for noncontractual contingencies within the scope of IAS 37.

(b) Do you agree that when the amount that will be required to settle a liability (unconditional obligation) is contingent on the occurrence or non-occurrence of one or more uncertain future events, the liability should be recognised independently of the probability that the uncertain future event(s) will occur (or fail to occur)? If not, why not?

We generally agree that for contractual obligations, a liability should be recognized independently of the probability that uncertain future events will occur (or fail to occur). However, as stated above, due to the level of uncertainty related to whether the definition of a liability has been met for noncontractual

contingencies, we believe that a liability should not be recognized before an appropriate level of certainty is achieved. As we mentioned in the preceding question and discuss further in our response to Question 5, we believe that a recognition criterion should be included in IAS 37 for contingencies that arise outside of a contract or other written agreement.

Question 3 – Contingent assets

The Exposure Draft proposes to eliminate the term ‘contingent asset’.

As with contingent liabilities, the Basis for Conclusions explains that assets arise only from unconditional (or non-contingent) rights (see paragraph BC11). Hence, an asset (an unconditional right) cannot be contingent or conditional, and a right that is contingent or conditional on the occurrence or non-occurrence of a future event does not by itself give rise to an asset (see paragraph BC17).

The Basis for Conclusions also explains that many items previously described as contingent assets satisfy the definition of an asset in the Framework. This is because the contingency does not relate to whether an unconditional right exists. Rather, it relates to one or more uncertain future events that affect the amount of the future economic benefits embodied in the asset (see paragraph BC17).

The Exposure Draft proposes that items previously described as contingent assets that satisfy the definition of an asset should be within the scope of IAS 38 Intangible Assets rather than IAS 37 (except for rights to reimbursement, which remain within the scope of IAS 37). This is because such items are non-monetary assets without physical substance and, subject to meeting the identifiability criterion in IAS 38, are intangible assets (see paragraph A22 in the Appendix). The Exposure Draft does not propose any amendments to the recognition requirements of IAS 38.

(a) Do you agree with eliminating the term ‘contingent asset’? If not, why not?

While we support the IASB’s proposal to eliminate the term “contingent assets” from an accounting standard that provides guidance for non-financial liabilities, we believe that the application of other Standards, such as IAS 38, to assets with contingencies needs to be clarified. We have provided further discussion of our view in our response to the following question.

(b) Do you agree that items previously described as contingent assets that satisfy the definition of an asset should be within the scope of IAS 38? If not, why not?

We believe that items previously described as contingent assets should be within the scope of IAS 38 if they satisfy the definition of an intangible asset. However, certain items that initially meet the definition of an intangible asset may also satisfy the definition of a financial asset in IAS 32. For example, an insurance policy holder’s unconditional right to insurance proceeds is one example of an item that satisfies both the definition of an intangible asset and a financial asset. We recommend that the IASB consider whether certain items previously described as contingent assets could be within the scope of IAS 32 and IAS 39 and, if so, how those items would be distinguished from those within the scope of IAS 38.

We also believe that the IASB should provide further guidance regarding the application of IAS 38 to items previously described as contingent assets, noting the consistency in the criteria between IAS 38 and

the proposed IAS 37. For example, paragraph 21 of IAS 38 contains a probability recognition criterion which could result in assets not being recognized until contingencies have been met, while this Exposure Draft proposes to remove a similar criterion from IAS 37 and require non-financial liabilities to be recognized independently of the probability that uncertain events will occur (or fail to occur). Since the IASB has decided not to amend IAS 38 at this time to remove the probability recognition criterion, it is not clear whether an asset (an unconditional right) should be recognized independently of the probability that uncertain future events will occur (or fail to occur). This lack of clarity will make it difficult for preparers, auditors, and regulators to have a consistent view on the recognition of items previously described as contingent assets.

Other examples where we believe the IASB could provide further guidance regarding the application of IAS 38 to items previously described as contingent assets include the determination of the useful life, amortization period and method, and residual value of an intangible asset arising from an unconditional right accompanied by a conditional right.

Question 4 – Constructive obligations

The Exposure Draft proposes amending the definition of a constructive obligation to emphasise that an entity has a constructive obligation only if its actions result in other parties having a valid expectation on which they can reasonably rely that the entity will perform (see paragraph 10). The Exposure Draft also provides additional guidance for determining whether an entity has incurred a constructive obligation (see paragraph 15).

(a) Do you agree with the proposed amendment to the definition of a constructive obligation? If not, why not? How would you define one and why?

We agree with the conclusion in paragraph BC57 that the amended definition does not fully converge with US GAAP. Accordingly, we question the need for this amendment. Please see also our response to the following question.

We understand the IASB's decision not to limit recognition of constructive obligations to those that a court would enforce and agree that in most circumstances liabilities arise from legal obligations that can be enforced by a court or other enforcement body (paragraph 14). However, we believe that the acknowledgement in paragraph 15 that a liability could exist in the absence of legal enforceability will make it difficult for preparers, auditors, and regulators to agree on whether non-legally enforceable contingencies meet the definition of a liability due to the lack of evidence available to make such a determination.

We stated in our responses to Questions 2(a) and 5 that we believe that in the absence of a contract or other written agreement it is not clear whether the definition of a liability has been met and we believe that legal enforceability should be one factor considered when determining this.

(b) Is the additional guidance for determining whether an entity has incurred a constructive obligation appropriate and helpful? If not, why not? Is it sufficient? If not, what other guidance should be provided?

We do not believe that the additional guidance is appropriate and helpful. We are not aware of any specific examples where the existing guidance was insufficient, and the proposed amendment will not achieve convergence with US GAAP. Accordingly, we are concerned that changing the guidance will create unnecessary confusion. We suggest that the IASB provide additional explanation or examples in support of this proposed amendment.

Question 5 – Probability recognition criterion

The Exposure Draft proposes omitting the probability recognition criterion (currently in paragraph 14(b)) from the Standard because, in all cases, an unconditional obligation satisfies the criterion. Therefore, items that satisfy the definition of a liability are recognised unless they cannot be measured reliably.

The Basis for Conclusions emphasises that the probability recognition criterion is used in the Framework to determine whether it is probable that settlement of an item that has previously been determined to be a liability will require an outflow of economic benefits from the entity. In other words, the Framework requires an entity to determine whether a liability exists before considering whether that liability should be recognised. The Basis notes that in many cases, although there may be uncertainty about the amount and timing of the resources that will be required to settle a liability, there is little or no uncertainty that settlement will require some outflow of resources. An example is an entity that has an obligation to decommission plant or to restore previously contaminated land. The Basis also outlines the Board's conclusion that in cases previously described as contingent liabilities in which the entity has an unconditional obligation and a conditional obligation, the probability recognition criterion should be applied to the unconditional obligation (ie the liability) rather than the conditional obligation.

So, for example, in the case of a product warranty, the question is not whether it is probable that the entity will be required to repair or replace the product. Rather, the question is whether the entity's unconditional obligation to provide warranty coverage for the duration of the warranty (ie to stand ready to honour warranty claims) will probably result in an outflow of economic benefits (see paragraphs BC37-BC41).

The Basis for Conclusions highlights that the Framework articulates the probability recognition criterion in terms of an outflow of economic benefits, not just direct cash flows. This includes the provision of services. An entity's unconditional obligation to stand ready to honour a conditional obligation if an uncertain future event occurs (or fails to occur) is a type of service obligation. Therefore, any liability that incorporates an unconditional obligation satisfies the probability recognition criterion. For example, the issuer of a product warranty has a certain (not just probable) outflow of economic benefits because it is providing a service for the duration of the contract, ie it is standing ready to honour warranty claims (see paragraphs BC42-BC47).

Do you agree with the analysis of the probability recognition criterion and, therefore, with the reasons for omitting it from the Standard? If not, how would you apply the probability recognition criterion to examples such as product warranties, written options and other unconditional obligations that incorporate conditional obligations?

We understand the reasons for omitting the probability recognition criterion from the Standard. However, as stated in our responses to Question 2(a) and 4 above, we have concerns that it would not be clear

whether the definition of a liability has been met for contingencies that arise outside of a contract or other written agreement. Therefore, we believe that for both conceptual and practical purposes the IASB should include a criterion, such as a probability (more likely than not) recognition criterion, to assist in determining when noncontractual contingencies within the scope of IAS 37 meet the definition of a liability.

In addition, we believe that the inclusion of the phrase “highly likely” in Example 2 may be confusing because it could be interpreted as a probability recognition criterion. We also believe that it would be helpful to provide further examples to clarify whether the definition of a liability has been met for noncontractual obligations within the scope of IAS 37.

We also note that paragraph 50 of the *Framework* references an explicit probability criterion that must be met for recognition of an item in the financial statements. We believe that the language concerning this probability recognition criterion as it applies to liabilities needs to be consistent with the proposed amendments to IAS 37.

Question 6 – Measurement

The Exposure Draft proposes that an entity should measure a non-financial liability at the amount that it would rationally pay to settle the present obligation or to transfer it to a third party on the balance sheet date (see paragraph 29). The Exposure Draft explains that an expected cash flow approach is an appropriate basis for measuring a non-financial liability for both a class of similar obligations and a single obligation. It highlights that measuring a single obligation at the most likely outcome would not necessarily be consistent with the Standard’s measurement objective (see paragraph 31).

Do you agree with the proposed amendments to the measurement requirements? If not, why not? What measurement would you propose and why?

Most members agree that an expected cash flow approach is an appropriate basis for measuring a non-financial liability for both a class of similar obligations and a single obligation but believe additional disclosures would provide useful information to financial statement users. Some members disagree that an expected cash flow approach is appropriate for liabilities where the total population of possible future outcomes is small or the percentages attributed to certain future outcomes are very low. These members believe that using the single most likely outcome will provide the most relevant information for financial reporting purposes. Therefore, we suggest that if the IASB retains the measurement guidance in the Exposure Draft, additional disclosures should be provided when the expected cash flow method is used to measure non-financial liabilities. Such disclosures would include the range of possible future outcomes and their associated probabilities of occurrence.

We also believe that the description of the measurement principle in paragraph 29 appears to provide two distinct measurement alternatives: one measurement alternative (the amount that an entity would rationally pay to settle a present obligation) would likely involve entity-specific assumptions, whereas the alternative measurement (the amount that an entity would rationally pay to transfer an obligation to a third party) would likely involve marketplace participant assumptions. Since these measurement alternatives would result in different values being recorded for a non-financial liability based on the alternative

selected, we believe that the IASB should clarify why it believes that this optionality is appropriate and provide guidance regarding the selection of a measurement alternative.

In addition, we believe the IASB should further clarify the measurement requirements of the Standard. Even though the IASB limited the scope of this project by previously deciding against reevaluating the existing measurement principles in IAS 37, there is a need to clarify how these requirements either do or do not converge with other IFRS.

For example, paragraph 35 of the current Exposure Draft on Business Combinations requires an acquirer to initially recognize the acquisition-date fair value of a liability assumed in a business combination, and paragraph 36 requires such liabilities to be accounted for subsequent to initial recognition based on the provisions of IAS 37. It is not clear whether the acquisition-date fair value measurement required under the Business Combinations Exposure Draft would be different from the measurement requirements of this Standard. If the measurement requirements are intended to be different, then the IASB should explain the reasons why it believes that this is an appropriate result. If the measurement requirements are intended to converge, then this point should be highlighted in the final Standard.

Question 7 – Reimbursements

The Exposure Draft proposes that when an entity has a right to reimbursement for some or all of the economic benefits that will be required to settle a non-financial liability, it recognises the reimbursement right as an asset if the reimbursement right can be measured reliably (see paragraph 46).

Do you agree with the proposed amendment to the recognition requirements for reimbursements? If not, why not? What recognition requirements would you propose and why?

We do not understand the distinction between assets that were previously described as contingent assets, which the IASB has proposed to include within the scope of IAS 38, and reimbursements that would be accounted for within the scope of this Standard. In the example of an insurance contract, one interpretation of the Exposure Draft would be to account for the unconditional right to receive reimbursement under IAS 38, with the proceeds to be received due to the occurrence of a specific insured event accounted for under this Standard. We suggest that the IASB clarify when the accounting for a reimbursement right falls within the scope of IAS 38 and when it is within the scope of IAS 37. In addition, as we stated in our response to question 3(b), it may not be clear whether the unconditional right to receive reimbursement from the insurance contract should be accounted for under IAS 39.

In addition, we believe that the IASB should specify a measurement objective for a reimbursement right. While paragraph 46 states that the measurement of such a right shall not exceed the recognized amount of the related non-financial liability, it is not clear from the Exposure Draft how to measure reimbursement rights that are less than the amount of the related non-financial liability. We understand that the IASB decided against evaluating the existing measurement principles in IAS 37 under the narrow scope of this project. However, we think that establishing a measurement principle for reimbursement rights is important in order to complete the accounting model and suggest that the IASB address this issue as soon as possible.

Lastly, we note that the IASB has stated in paragraph 27 that only in extremely rare cases will a non-financial liability not be reliably measurable. However, there is no similar guidance provided for reimbursement rights. Accordingly, the proposed amended standard appears to create a lower recognition threshold for non-financial liabilities than for unconditional rights to receive reimbursement. We suggest that the IASB explain whether this asymmetric recognition criteria was intended and, if so, why the IASB believes it is appropriate.

Question 8 – Onerous contracts

The Exposure Draft proposes that if a contract will become onerous as a result of an entity's own action, the liability should not be recognised until the entity takes that action. Hence, in the case of a property held under an operating lease that becomes onerous as a result of the entity's actions (for example, as a result of a restructuring) the liability is recognised when the entity ceases to use the property (see paragraphs 55 and 57). In addition, the Exposure Draft proposes that, if the onerous contract is an operating lease, the unavoidable cost of the contract is the remaining lease commitment reduced by the estimated sublease rentals that the entity could reasonably obtain, regardless of whether the entity intends to enter into a sublease (see paragraph 58).

(a) Do you agree with the proposed amendment that a liability for a contract that becomes onerous as a result of the entity's own actions should be recognised only when the entity has taken that action? If not, when should it be recognised and why?

While some members support the IASB's proposal, other members believe that the definition of a liability may be met when an entity has made a commitment that will result in an onerous contract. In the example of an operating lease for office space, a contract could be considered to become onerous on the date that the entity provides irrevocable notice to the lessor of its intention to cease using the office space. In support of their view, these members point to the last sentence of paragraph BC65 which states that exercising an option to terminate a contract is an example of an entity undertaking an action that makes a contract onerous.

Paragraph BC65 also states that the IASB believes that prior to the "cease to use" date, an entity has the discretion to change its intended action. While consistent with US GAAP, this guidance seems to contradict the example in the above paragraph of recognizing a liability for an operating lease of office space upon exercising an option to terminate a contract. We suggest that the IASB resolve this inconsistency in paragraph BC65 and further explain why it believes the definition of a liability would not be met at the date an entity makes a commitment to "cease use" when the commitment is irrevocable.

(b) Do you agree with the additional guidance for clarifying the measurement of a liability for an onerous operating lease? If not, why not? How would you measure the liability?

We support the IASB's proposal.

(c) If you do not agree, would you be prepared to accept the amendments to achieve convergence?

Please see our response to Question 8(a) above. We do not believe that it is clear from paragraph BC65 that the proposed amendments will result in convergence.

Question 9 – Restructuring provisions

The Exposure Draft proposes that non-financial liabilities for costs associated with a restructuring should be recognised on the same basis as if they arose independently of a restructuring, namely when the entity has a liability for those costs (see paragraphs 61 and 62).

The Exposure Draft proposes guidance (or provides cross-references to other Standards) for applying this principle to two types of costs that are often associated with a restructuring: termination benefits and contract termination costs (see paragraphs 63 and 64).

(a) Do you agree that a liability for each cost associated with a restructuring should be recognised when the entity has a liability for that cost, in contrast to the current approach of recognising at a specified point a single liability for all of the costs associated with the restructuring? If not, why not?

We support the IASB's proposal.

(b) Is the guidance for applying the Standard's principles to costs associated with a restructuring appropriate? If not, why not? Is it sufficient? If not, what other guidance should be added?

We have no specific comments.

Other comments:

We believe the IASB should explain why the disclosure requirements are segregated between those non-financial liabilities involving uncertainty and those not involving uncertainty. It appears as though certain of the disclosure requirements applicable to non-financial liabilities involving uncertainty (for example, the expected timing of any resulting outflows of economic benefits) would be applicable to non-financial liabilities not involving uncertainty.

We also believe that the IASB should refer in the Standard to the guidance in paragraph 24 of IAS 8 for the changes in accounting that will result from the adoption of the proposals in the Exposure Draft. We do not think that it will be clear to all readers of the final Standard that paragraph 24 of IAS 8 is applicable.

Proposed Amendments to IAS 19

Question 1 – Definition of termination benefits

The Exposure Draft proposes amending the definition of termination benefits to clarify that benefits that are offered in exchange for an employee's decision to accept voluntary termination of employment are termination benefits only if they are offered for a short period (see paragraph 7). Other employee benefits that are offered to encourage employees to leave service before normal retirement date are post-employment benefits (see paragraph 135).

Do you agree with this amendment? If not, how would you characterise such benefits, and why?

We do not object to the IASB's proposal. However, due to experiences in their respective jurisdictions, some members question the benefit of this amendment. The distinction between termination benefits and post employment benefits in IAS 19 is not currently clear for benefit programs, such as early retirement plans, that are offered after the completion of employment as part of a "plan" but are payable as a result of an entity's or employee's decision to terminate employment. Some members believe that the proposed amendment does not remove the uncertainty as to when benefits are considered to be part of a post-employment benefit plan.

The proposed amendment explains that if benefits for leaving service are made available for more than a "short period," an employer has effectively established a new ongoing benefit plan. Because the accounting for voluntary termination benefits differs from the accounting for benefits provided through a benefit plan, we believe the IASB should further illustrate what is meant by a "short period."

Question 2 – Recognition of termination benefits

The Exposure Draft proposes that voluntary termination benefits should be recognised when employees accept the entity's offer of those benefits (see paragraph 137). It also proposes that involuntary termination benefits, with the exception of those provided in exchange for employees' future services, should be recognised when the entity has communicated its plan of termination to the affected employees and the plan meets specified criteria (see paragraph 138).

Is recognition of a liability for voluntary and involuntary termination benefits at these points appropriate? If not, when should they be recognised and why?

We support the IASB's proposals.

Question 3 – Recognition of involuntary termination benefits that relate to future service

The Exposure Draft proposes that if involuntary termination benefits are provided in exchange for employees' future services, the liability for those benefits should be recognised over the period of the future service (see paragraph 139). The Exposure Draft proposes three criteria for determining whether involuntary termination benefits are provided in exchange for future services (see paragraph 140).

Do you agree with the criteria for determining whether involuntary termination benefits are provided in exchange for future services? If not, why not and what criteria would you propose? In these cases, is recognition of a liability over the future service period appropriate? If not, when should it be recognised and why?

We support the IASB's proposals. However, since paragraph BC14 acknowledges a broader definition of a minimum retention period in the proposed amendments than Statement 146, it appears that there will continue to be a difference between IAS 37 and US GAAP for involuntary benefits offered in return for future service that is implied by customary business practice as opposed to future service required by law, contract, or union agreement. We believe that it would be helpful for the IASB to clearly state this convergence difference in the final Standard.

Other comments:

We suggest that the IASB consider requiring disclosures of voluntary and involuntary termination benefits accruals, similar to paragraph 20 of Statement 146, to provide more useful information about the nature and timing of termination benefits, including related cash flow implications. We also believe that the IASB should refer in the Standard to the guidance in paragraph 24 of IAS 8 for the changes in accounting that will result from the adoption of the proposals in the Exposure Draft. We do not think that it will be clear to all readers of the final Standard that paragraph 24 of IAS 8 is applicable.

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We appreciate your thoughtful consideration of the comments raised in this letter. If you have any questions or need additional information on the recommendations and comments that we have provided, please do not hesitate to contact me at 202-551-5300.

Sincerely,



Scott A. Taub
Chairman, Standing Committee No. 1